MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, 2022/2023

DFI5214 – FUNDAMENTALS OF INVESTMENT

(All sections / Groups)

06 JULY 2023
9:00 a.m – 11:00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENT

1. This Question paper consists of 8 pages with 2 sections (excluding the cover page).
2. Attempt **ALL** questions. The distribution of the marks for each question is given.
3. Students are allowed to use non-programmable scientific and financial calculators.
4. Please write all your answers in the Answer Booklet provided.

SECTION A (40 marks): Answer ALL questions. Choose the best answer. Each question carries 2 marks.

Q1. Secondary markets are important because

a. The prevailing market price of securities is determined in the secondary market
b. It has an impact on price stability
c. It has an impact on price continuity
d. All of the above
e. None of the above

Q2. All of the following are advantages of secondary markets except

a. Provide liquidity to individuals holding the securities.
b. Support the primary market by reducing the required rate of return due to the lower liquidity risk for securities.
c. Provide price discovery for corporations selling seasoned securities.
d. Impact market efficiency and price volatility.
e. All of the above are advantages of secondary markets.

Q3. Bond buyer who bought bond which priced above the par value is buying at?

a. Value
b. Discount
c. Expensive
d. Cheap
e. Premium

Q4. In the event of company bankruptcy, the following personnel will be the last to receive the payment.

a. Bondholder
b. Debtor
c. Creditor
d. Shareholder
e. Stakeholder

Continued ...

Q5. As stated by Reuters (2023), on 10 March 2023, Friday, regulators seize the assets of the start-up bank, Silicon Valley Bank (SVB), the second-largest bank failure in United States history. And it was the largest financial crisis since the 2007–2008. As the investor, what strategy you should employ to be beneficial from the above news.

a. Buy low, sell high
b. Long buying
c. Short selling
d. Value investing
e. Fundamental investing

Q6. Given the expected return of both stocks namely Maybank Berhad and CIMB Bank Berhad is 15%, standard deviation for Maybank Berhad is 4.8% and standard deviation for CIMB Bank Berhad is 6.1%. The following which comment is the best fit?

a. CIMB Bank Berhad has the larger dispersion
b. CIMB Bank Berhad has the smaller dispersion
c. Maybank Berhad has the larger dispersion
d. Maybank Berhad has the smaller dispersion
e. None of the above

Q7. A firm has a current price of RM 40 a share, an expected growth rate of 11 percent and expected dividend per share (D1) of RM 2. Given its risk you have a required rate of return for it of 12 percent. If you expect the stock price to increase to RM 42 during the investment period, your expected rate of return and decision would be:

a. 10% - do not buy
b. 12% - do not buy
c. 14% - buy
d. 16% - buy
e. 18% - buy

Do not buy, expected return (10%) does not exceed the required return (12%).

Q8. Which of the following is correct about financial derivatives instruments?

a. Financial derivatives instruments have the direct claim on the assets
b. The overtop assets are the value being derived
c. Financial derivatives instruments do not have the direct claim on the assets
d. Futures and options contracts are not guaranteed by a third party
e. All of the above

Continued ...

Q9. One of the important policies in affecting the country's economic activity is monetary policy. Which of the following is true?

a. Trade surplus is the focus of monetary policy
b. Tends to increase (decrease) the country's money supply to suit to the economic activity
c. Foreign direct investment is critical to the country's economy
d. Focusing on the government spending
e. None of the above

Q10. The following risk is the remaining risk after diversification technique applied.

a. Financial risk
b. Nonsystematic risk
c. Business risk
d. Systematic risk
e. None of the above

Q11. Which is the most appropriate analysis to fit into weak form of the efficient market hypotheses?

a. Financial analysis
b. Accounting analysis
c. Technical analysis
d. Fundamental analysis
e. All of the above

Q12. To reduce the duration of bond portfolio, hedge fund managers often use _____ .

a. Shares of common stock
b. Real assets investments
c. Preferred stock
d. Treasury bills
e. None of the above

Q13. You own 50 shares of Auto Corporation Berhad that you purchased for RM 30 a share. The stock is currently selling for RM 50 a share and you placed a stop loss order at RM 45. If the stock price drops to RM 35 a share what is your return on this investment?

a. - 30.0%
b. 16.7%
c. 50.0%
d. 66.7%
e. 150.0%

Continued ...

Q14. Which statement is true concerning alternative efficient market hypothesis?

a. The weak hypothesis encompasses the semi-strong hypothesis.
b. The weak hypothesis encompasses the strong hypothesis.
c. The semi-strong hypothesis encompasses the weak hypothesis.
d. The strong hypothesis relates only to public information.
e. None of the above (all statements are false)

Q15. A growth company is one that has the ability to

a. Acquire capital at a low cost and is able to invest in projects that yield an average return.
b. Acquire capital at a low cost and is able to invest in projects that yield a below average return.
c. Acquire capital at an average cost and is able to invest in projects that yield an above average return.
d. Acquire capital at an average cost and is able to invest in projects that yield an average return.
e. Acquire capital at an above average cost and is able to invest in projects that yield an average return.

Q16. The relationship between bond price and interest rate is _____.

a. Neutral
b. All of the above
c. Inverse
d. Positive
e. None of the above

Q17. Which of the following is not considered a relative valuation technique?

a. Price-earnings ratio
b. Price/cash flow ratio
c. Price/book value ratio
d. Price/cost of goods sold ratio
e. Price/sales ratio

Continued ...

Q18. Which of the following factors does not indicate market liquidity?

a. Number of shareholders
b. High price volatility
c. Number of shares outstanding
d. Number of shares traded
e. Institutional interest

Q19. Which of the following bond has the highest risk of default?

a. Callable bond
b. Junk bond
c. Treasury bill
d. Corporate bond
e. Government bond

Q20. A ____ stock possesses a high probability of low or negative rates of return and a low probability of normal or high rates of return.

a. Growth
b. Defensive
c. Cyclical
d. Speculative
e. Value

Continued ...

SECTION B (60 marks): Answer ALL questions.

QUESTION 1

a) After you have identified the investment opportunity and the expected return for each of the following shares with the probability, you are now deciding on the risk tolerance. Thus, you need to compute the standard deviation for the following portfolio.

Shares	Expected Return, $E(R_i)$ (%)	Probability, P_i
Gamuda Berhad	-10.0	0.10
Capital A Berhad	0.0	0.20
TM Berhad	10.0	0.30
Genting Berhad	20.0	0.30
Hartalega Berhad	30.0	0.10

(12 marks)

b) Illustrate at least **FOUR (4)** sources of risks.

(8 marks)

(Total: 20 marks)

QUESTION 2

a) Compute the holding period yield for the following portfolio.

Investment	Number of shares	Beginning Price (RM)	Ending Price (RM)
TopGlove Berhad	10,000	0.90	1.00
Axiata Berhad	30,000	3.00	4.20
Genting Berhad	20,000	4.80	5.20

(10 marks)

b) Compute the total return for each of the investment listed below:

Types of Investment	Buying Price, RM	Selling Price, RM	Cash Received, RM / %	Duration of Investment
Bond	850	950	10%	3 years
Common Stock	9	5	RM 3	1 year
Preferred Stock	6	8	RM 2	1 year

(10 marks)

(Total: 20 marks)

Continued ...

QUESTION 3

a) According to Rasheed (2023), the Saudi Arabia and other Organization of the Petroleum Exporting Countries (OPEC+) oil producers announced the reduction of oil of 1.16 million barrels per day on 02 April 2023. This has made surprises and opportunities among investors. To grab these opportunities, investors applied different analyses to ensure the best interest to them. State the difference between fundamental and technical analysis.

(10 marks)

b) Illustrate in detail with the different types of market efficiency hypotheses.

(10 marks)

(Total: 20 marks)

End of Paper